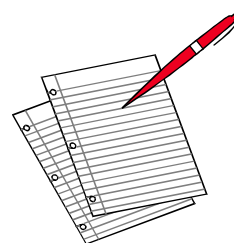


Segregated Funds



Local Government Property Insurance Fund (Fund)

The purpose of the Fund is to make reasonably priced property insurance available for tax-supported local government property such as government buildings, schools, libraries, and motor vehicles. The Fund provides policy and claim service to the policyholders.

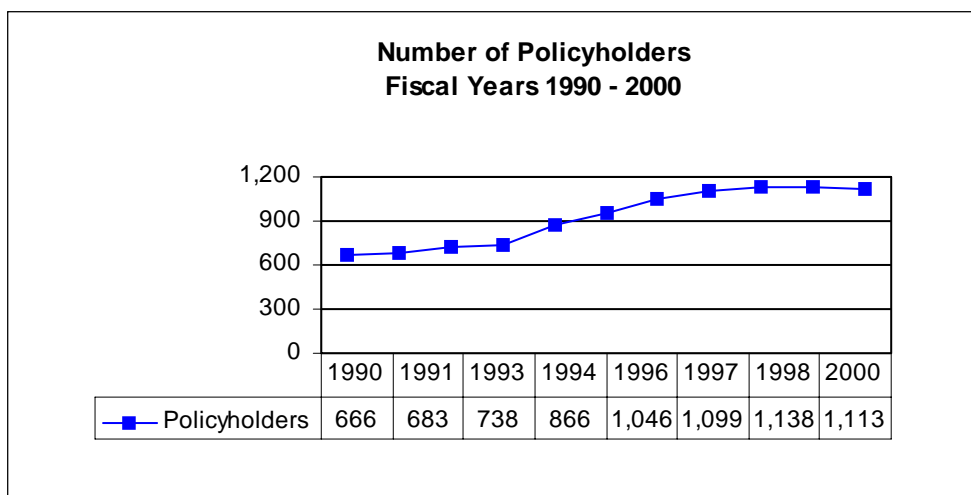
As of June 30, 2000, the Fund insured 1,113 policyholders: 71 counties, 282 schools, 138 cities, 305 towns, 205 villages, and 112 miscellaneous (libraries, etc.). The number of policyholders decreased by 15 (1.3%) since the previous fiscal year-end. Two graphs are included that reflect growth in the Fund's policyholder base and growth in its insurance coverage in force. The total amount of insurance in force as of June 30, 2000, was \$25.1 billion, up from \$22.7 billion as of the previous fiscal year-end.

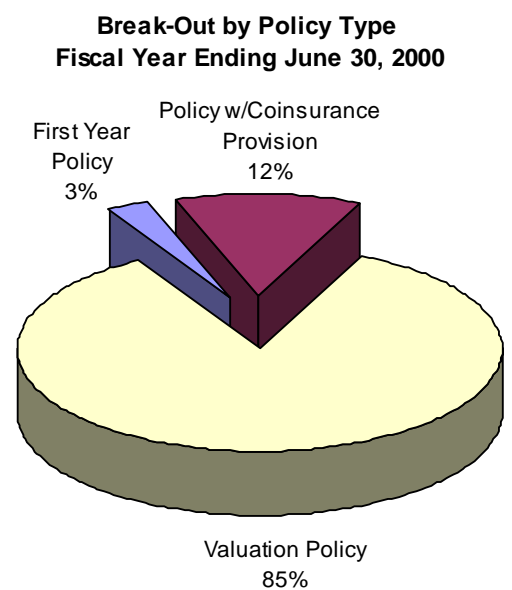
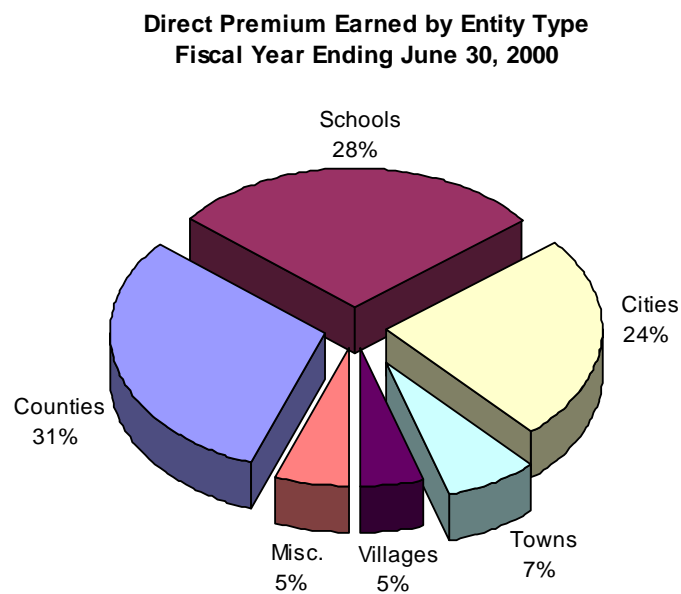
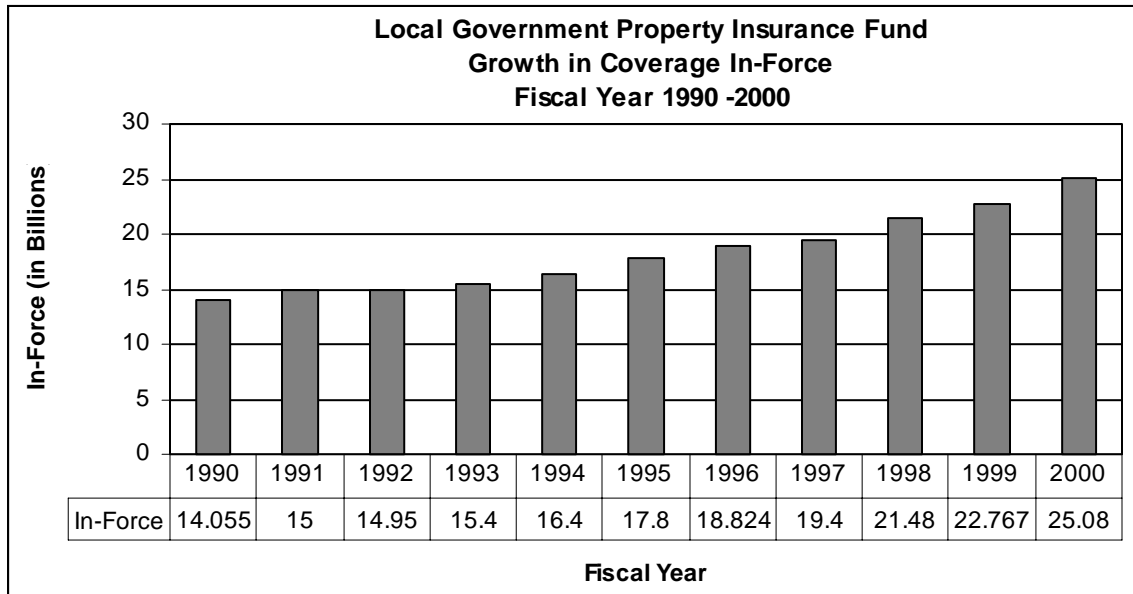
Two pie charts reflecting premium earned distribution by type of policyholder and the breakdown by type of policy purchased are also attached. The majority of the Fund's insureds are using the valuation project service that began in 1988. This unique method of valuing buildings, contents, property in the open, and contractor's equipment was developed to promote equity in premiums and the proper reporting of values. Participants not only have broader coverages, but

enjoy the benefits of automatic computer-generated statements of values.

During 1998 the Fund modified its valuation policy form coverage with respect to replacement coverage for fine arts, collectible items, and museum collections. These changes were necessary to permit the Fund to better assess its exposure relative to fine arts, collectible items, and museum collections which can have substantial replacement costs. Effective January 1, 1999, the most the Fund will pay for any one item is \$50,000. If, however, the insured desires higher amounts of coverage on a per item basis, it must either schedule the individual property and provide an estimated replacement value, or purchase an endorsement that offers coverage subject to per item, per exhibit, and per occurrence limitations.

Rates over the past five years have remained stable. The Fund's surplus increased approximately \$1.9 million over the June 30, 1999, level, while its total insurance in force increased \$2.4 billion over the same time period. The Fund's insurance in force represents property that is insured against loss. The more property insured, the greater the potential for a loss. Increasing claims costs will continue to be a factor in the rate-setting analysis and on future cost of reinsurance. Fund management will continue to monitor insurance in force and claims trends in an attempt to maintain a stable rating structure.





Following are financial statements—balance sheet and income statements—for the Fund for the fiscal year ending June 30, 2000.

Local Government Property Insurance Fund Balance Sheet—Statutory Basis June 30, 2000	
Assets	
Bonds - Amortized Cost	\$11,938,716
Investment Fund	16,484,000
Cash at Treasury	4,336
Premiums Receivable	919,233
Reinsurance Recoverable	11,594
Interest Receivable	218,180
Prepaid Reinsurance Premium	<u>2,215,484</u>
Total Assets	<u>\$31,791,543</u>
Liabilities and Surplus	
Liabilities	
Net Loss Reserves	\$ 3,401,726
Loss Adjustment Expenses Payable	21,753
Net Unearned Premiums	4,526,272
Other Expenses Payable	<u>340,500</u>
Total Liabilities	\$ 8,290,251
Surplus	
Surplus - Beginning of Year	21,556,221
Net Income	<u>1,945,071</u>
Surplus - End of Year	<u>23,501,292</u>
Total Liabilities and Surplus	<u>\$31,791,543</u>

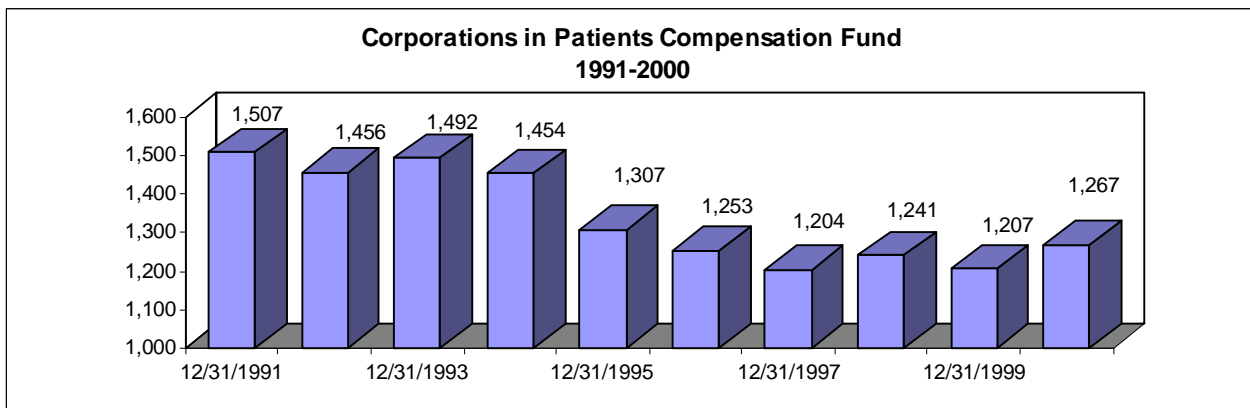
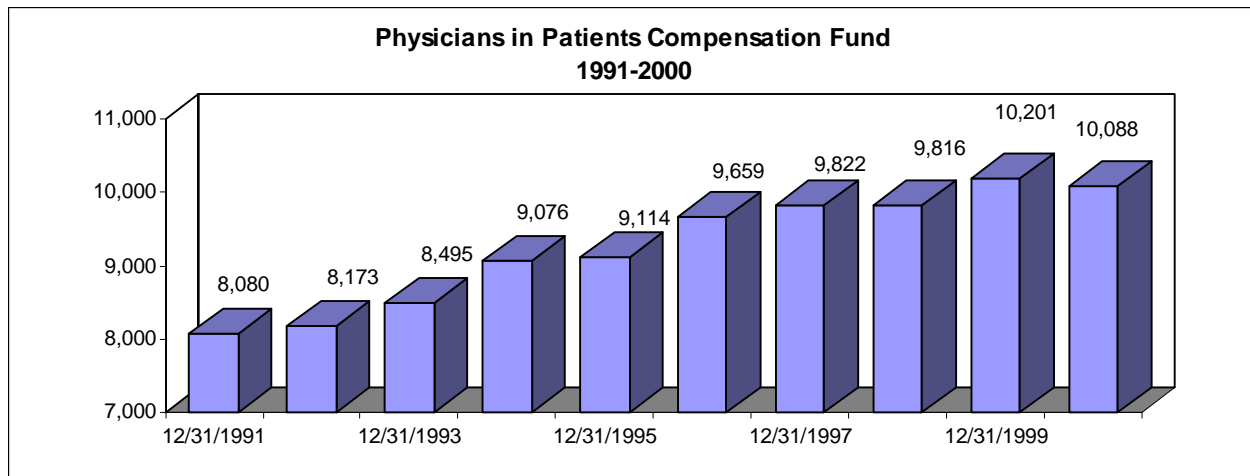
Local Government Property Insurance Fund Income Statement—Statutory Basis June 30, 2000	
Premiums Earned	
Direct Premium Earned	\$10,422,384
Reinsurance Ceded	<u>(1,055,074)</u>
Net Premium Earned	\$9,367,310
Losses Incurred	
Direct Losses Incurred	13,288,766
Reinsurance Loss Recoveries	<u>(5,856,128)</u>
Net Losses Incurred	7,432,638
Loss Adjustment Expenses	439,939
Other Underwriting Expenses	<u>1,043,255</u>
Total Net Losses and Expenses	<u>8,915,832</u>
Underwriting Gain	451,478
Investment & Other Income	
Interest on Bonds	848,559
Investment Fund Earnings	671,344
Realized Capital Gain	87
Investment Expenses	<u>(26,397)</u>
Net Investment Income	<u>1,493,593</u>
Net Income Before Dividends	1,945,071
Dividends to Policyholders	<u>(0)</u>
Net Income	<u>\$ 1,945,071</u>

Patients Compensation Fund (Fund)

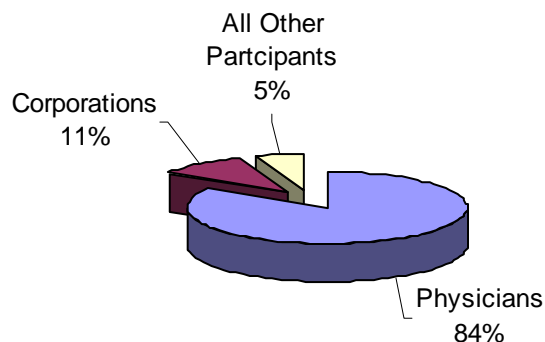
The Fund was created in 1975 to provide excess medical malpractice insurance for Wisconsin health care providers. The Fund is governed by a 13-member Board of Governors (Board) that consists of 3 insurance industry representatives, a member named by the Wisconsin Academy of Trial Lawyers, a member named by the State Bar Association, 2 members named by the State Medical Society of Wisconsin, a member named by the Wisconsin Hospital Association, 4 public members appointed by the Governor, and the Commissioner of Insurance who serves as the chair. The Fund's administrative staff is provided by OCI.

The Board is assisted by an Underwriting and Actuarial Committee, a Legal Committee, a Claims Committee, an Investment/Finance and Audit Committee, a Risk Management Steering Committee, and a Peer Review Council. The Board and its committees meet quarterly.

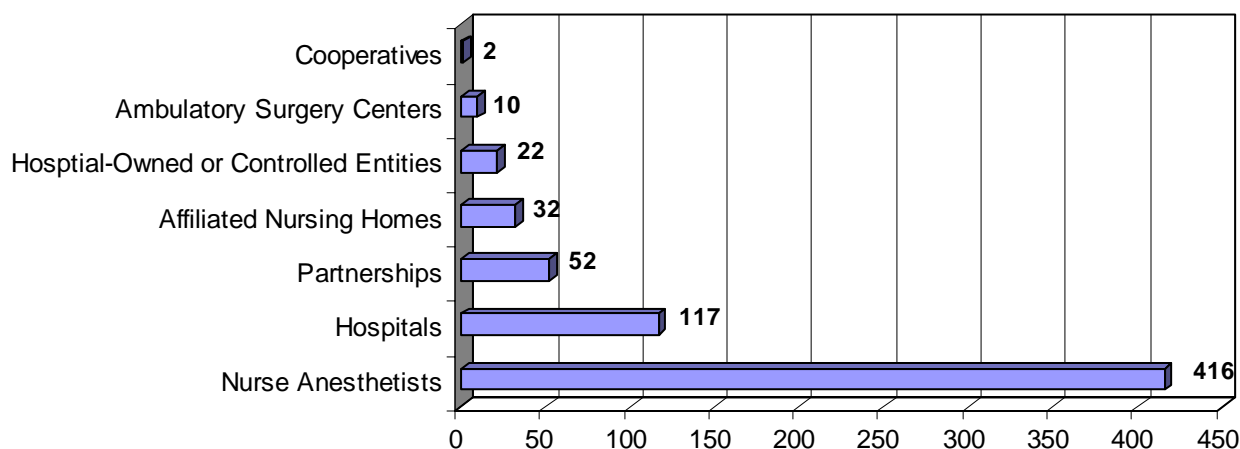
The Fund operates on a fiscal year basis—July 1 through June 30. Administrative costs, operating costs, and claim payments are funded through assessments on participating health care providers.



**Patients Compensation Fund Composition
December 31, 2000**



***All Other Participants in Patients Compensation Fund
December 31, 2000**



As of December 31, 2000, the vast majority of Fund participants were physicians at 84% with corporations comprising another 11% and the remaining 5% comprised of various other participant types, as illustrated in the charts above. At year-end 2000, Fund participants totaled 12,006 comprised of 10,088 physicians, 1,267 corporations, 416 nurse anesthetists, 117 hospitals with 32 affiliated nursing homes, 52 partnerships, 22 hospital-owned or controlled entities, 10 ambulatory surgery centers, and 2 cooperatives.

From July 1, 1975, through December 31, 2000, 4,459 claims had been filed in which the Fund was named. During this period, the Fund's total number of paid claims increased to 568, totaling \$474,894,176. Of the total number of claims in which the Fund has been named, 3,469 claims

have been closed with no indemnity payment. Of the remaining reported claims as of December 31, 2000, 41 cases carried aggregate case reserves of \$42,989,079.

Changes in the Fund's statutory investment authority have had a positive impact on the Fund. Legislation enacted in April 1990, which permitted the Fund to invest in long-term financial instruments, has resulted in higher investment earnings. The Fund's actuaries have estimated that during the period October 1, 1990, to September 30, 2000, investment earnings on the long-term portfolio were \$76.6 million greater than what would have been earned had these assets remained in the short-term account.

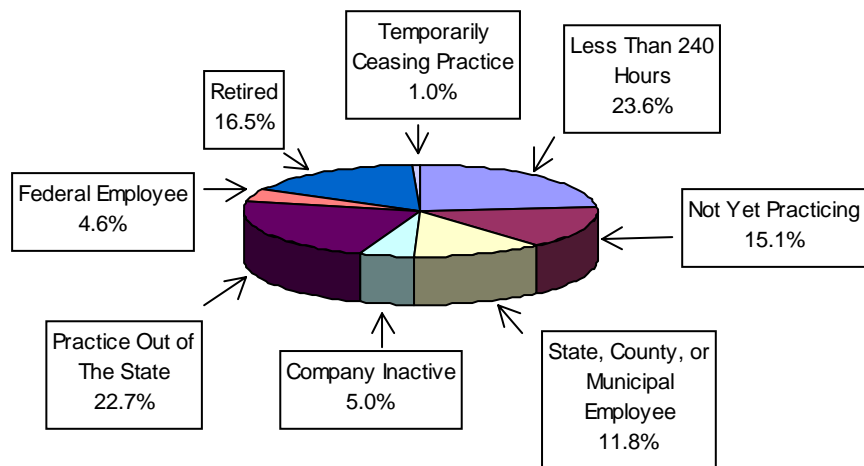
During 1999, the Investment Committee, with the assistance of an outside investment consultant, developed

new investment guidelines. The new investment guidelines provide for investment in equities to maximize investment return. These new investment guidelines were implemented in 2000 in coordination with the State of Wisconsin Investment Board.

Major Activities for 2000:

- The Fund successfully completed the transition of bringing the IT services in-house. This will provide more control by Fund administration and is expected to bring better service to Fund participants with IT staff being on hand to assist Fund administration in systems development.
- The Fund is currently in the process of implementing late filing fees which will be charged to primary carriers when certificates are not received timely in accordance with s. 17.28 (5), Wis. Adm. Code.
- Fund administration, in conjunction with counsel, closely monitored claims filed which challenge the constitutionality of the noneconomic and wrongful death caps. This is an ongoing issue and will be closely monitored.
- Processing and verification of up-to-date exemption status for providers that held a license to practice in Wisconsin but for which no current exemption or certificate was on file. As of December 31, 2000, 9,795 providers claimed an exemption from the Fund. The various basis for the exemptions are illustrated in the chart below:

**Patients Compensation Fund Exemptions
December 31, 2000**



Following are financial statements—balance sheet and income statement—for the Fund for the fiscal year ending June 30, 2000. The figures reported are on an unaudited basis.

Patients Compensation Fund Balance Sheet June 30, 2000	
Admitted Assets	
Cash	\$ 140,996
State Investment Fund Shares	16,080,477
Long-term Investments	516,370,104
Bond Investment Income Receivable	9,555,800
Short-term Interest Receivable	90,736
Assessments Receivable	324,441
Less: Allowance for Uncollectible Accounts	(817)
Prepaid Items	1,999
Office Furniture and Equipment	30,565
Other Receivables	<u>0</u>
Total Admitted Assets	<u><u>\$542,594,300</u></u>
Liabilities	
Loss Liabilities	
Liability for Incurred But Not Reported Losses	\$670,816,786
Liability for Reported Losses	46,463,285
Liability for Loss Adjustment Expense	<u>31,381,540</u>
Estimated Unpaid Loss Liabilities	748,661,611
Amount Representing Interest	<u>(235,079,746)</u>
Discounted Loss Liabilities	513,581,865
Liabilities for Future Medical Expenses	<u>143,179</u>
Total Loss Liabilities	<u><u>513,725,044</u></u>
Other Liabilities:	
Contributions Being Held	400,000
Assessments Received in Advance	472,728
Provider Refunds Payable	514,092
Medical Mediation Panels Payable	2,148
Vouchers Payable	249,343
Compensated Absences	<u>19,970</u>
Total Liabilities	<u><u>515,383,326</u></u>
Fund Surplus	<u><u>27,210,974</u></u>
Total Liabilities and Fund Surplus	<u><u>\$542,594,300</u></u>

Patients Compensation Fund Statement of Income and Changes in Fund Surplus June 30, 2000	
Underwriting Income:	
Assessments Written (Net)	\$ 47,879,282
Less Underwriting Expenses:	
Net Losses Paid	19,650,226
Interest on Loss Payments	106,957
Loss Adjustment Expenses Paid	3,204,682
Risk Management Expenses	98,428
Medical Expense Paid	0
Change in Liability for Incurred But Not Reported Losses	36,796,957
Change in Liability for Reported Losses	18,211,361
Change in Liability for Loss Adjustment Expense	534,976
Change in Amount Representing Interest	(29,916,724)
Change in Liability for Future Medical Expenses	<u>(7,188)</u>
Total Underwriting Expenses	48,694,052
Net Underwriting Gain (Loss)	(814,770)
Investment & Other Income	
Investment Income	31,830,459
Unrealized gain (adjustment to market value)	(15,882,228)
Change in Bond Premium (Discount)	3,971,000
Assessment Interest Income	389,990
Administrative Fee Income	41,821
Surcharge Income	0
Other Income	17,272
Depreciation Expense	(6,040)
Loss on Disposal of Fixed Assets	(4,758)
Less General and Administrative Expense	<u>(911,541)</u>
Net Gain (Loss)	<u><u>\$ 18,631,207</u></u>
Fund Balance, Beginning of Year	\$ 8,579,76)
Net Gain (Loss)	18,631,207
Other Adjustments	<u>0</u>
Fund Surplus, End of Year	<u><u>\$ 27,210,974</u></u>

State Life Insurance Fund (Fund)

The Fund is a segregated fund located within OCI. The Fund offers a maximum of \$10,000 of life insurance to state residents. Operating as a mutual insurance company, the Fund is supervised by the Commissioner.

Section 607.15, Wis. Stat., requires the Fund to distribute annually among the policyholders its net profits and to the extent practicably possible, maintain a ratio of

surplus to assets between 7% and 10%. In 2000, a distribution of \$3.5 million was paid to policyholders in the form of dividends.

Wisconsin is the only state in the nation that offers a life insurance program to residents. All policies issued are participating and there is no marketing of the Fund. The lapse rate on Fund policies is a low .8%. As of December 31, 2000, there were 30,660 policies in force.

State Life Insurance Fund Balance Sheet December 31, 2000

Assets	
Bonds	\$62,168,724
Policy Loans	3,775,032
Cash and Bank Deposits	211,130
State Investment Fund	5,347,000
Premiums Deferred & Uncollected	120,292
Investment Income Due & Accrued	<u>1,436,892</u>
Total Assets	<u>\$73,059,070</u>
Liabilities and Surplus	
Reserves for Life Policies & Contracts	\$50,399,075
Interest Maintenance Reserve	234,767
Supplementary Contracts	315,437
Policy Claims	186,162
Dividend Accumulations	9,596,799
Dividends Due and Unpaid (2000)	15,180
Dividends - Provision for 2001	3,830,873
Accrued Deposits	1,334,547
Unclaimed Property	94,552
Taxes, Licenses, Fees Accrued	518
Suspense and CANCELS Drafts	69,931
Expenses Due & Accrued	59,187
Back Up Withholding	427
Premiums Received in Advance	15,817
Asset Valuation Reserve	<u>337,816</u>
Total Liabilities	\$66,491,088
Surplus	<u>6,567,982</u>
Total Liabilities and Surplus	<u>\$73,059,070</u>

State Life Insurance Fund Income Statement December 31, 2000

Income	
Premiums	\$2,546,464
Considerations- Supplementary Contracts & Dividend Accumulations	886,527
Investment Income	5,086,594
Miscellaneous Income	833
Amortization of Interest Maintenance Reserve	<u>42,791</u>
Total Income	\$8,563,209
Expenses	
Death Benefits	905,019
Matured Endowments	293,500
Other Policy Benefits	980,802
Increase in Reserve	2,198,113
General Operating Expense	<u>677,877</u>
Expenses before Dividends	<u>5,055,311</u>
Net Gain before Dividends	<u>3,507,898</u>
Dividends to Policyholders	<u>3,554,432</u>
Net Gain (Loss) from Operations	<u>\$ (46,534)</u>